



**STATE LOTTERY COMMISSION
THREE YEARS ENDED JUNE 30, 2001**

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2002-05
January 15, 2002
www.auditor.state.mo.us**

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

January 2002

The following problems were discovered as a result of an audit conducted by our office of the State Lottery Commission.

The State Lottery Commission's advertising and promotional expenditures were approximately \$10 million for years ended June 30, 2001 and 2000; however, a thorough study of advertising expenditures' effects on sales has not been performed.

The Missouri Lottery's advertising budget is comparable to other state lotteries that have the same ticket sales volume as Missouri. Additionally, it appears that advertisements to make the public aware of large jackpots and new promotions may help increase sales. However, much of the advertising done by the commission does not inform the public of either large jackpots or new promotions, and the commission could not provide us with evidence that this type of advertising increases sales. While reviewing other state lotteries, it was noted that the Massachusetts State Lottery has steadily decreased its advertising expenditures over the past eight years, while its sales have continued to increase.

A prior audit performed by our office recommended that the Lottery Commission have an independent review conducted to analyze the effectiveness of advertising. The commission contracted with the University of Missouri in the fall of 1998 to have an evaluation performed on the impact of advertising expenditures on sales of Lottery products. Because the Lottery Commission did not maintain data in a manner conducive to analysis, this evaluation, costing \$10,711, could not support its conclusions and was therefore determined to be inadequate.

A follow-up to the evaluation was done by the University of Missouri in the spring of 1999, costing \$1,200. This follow-up listed ways in which the commission could collect and maintain data so that studies could be performed in the future. The State Lottery Commission has begun collecting sales and expenditure data from the advertising agency in the manner prescribed by the follow-up done by the University.

The State Auditor recommended the Lottery Commission have an independent study made of its advertising program with the goal of possibly reducing its advertising expenditures without significantly reducing sales volume. Lottery Commission employees indicated that an evaluation is planned before the end of the fiscal year 2002; however, it has yet to be scheduled.

Adequate controls are not in place or not always enforced for prize check distribution in the regional offices. There is not always an independent verification of the accuracy of the checks. There were also numerous entries on the check register of illegible winner's

(over)

YELLOW SHEET

signatures, only initials were written, or nothing was indicated at all. Some checks listed as voided were not retained and an explanation of the reason for voiding some checks was not given. Additionally, some retained voided checks were not properly marked void.

The State Lottery Commission does not have a uniform procedure for managing or accounting for tickets received through sponsorship agreements and various individuals were responsible for different events. There is also no formal written policy regarding the use or tracking of tickets received.

As a part of its advertising program, the commission sponsors various sporting and entertainment events. These events include, but are not limited to, professional baseball and football, college football and basketball, concerts, and various minority and women's events and projects. According to the contract terms, the commission receives various forms of advertising during the events as well as other items, such as tickets to the events. During the year ended June 30, 2001, the Lottery Commission spent over \$3 million on sponsorships (up from just over \$2 million in 1999).

The commission's sponsorship program includes the purchase of ten season tickets each year for the St. Louis Rams football games through a personal seat license (PSL). The cost of purchasing these tickets for the 2001-2002 season was \$6,500. It is the commission's informal policy to give sponsorship and PSL tickets to commission retailers as incentives and sales promotions, believing this will encourage the retailers to increase their participation in lottery products. In contrast to the other tickets received, the State Lottery Commission does not receive any advertising exposure through the purchase of the PSL tickets except when used in player or retailer promotions. The state Lottery commission should reconsider the purchase of these season tickets. The State Lottery Commission has a fiduciary duty to ensure funds are expended in a manner that maximizes revenues, and therefore maximizes the amount of money transferred for education purposes.

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STATE LOTTERY COMMISSION

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Bob Holden, Governor
and
State Lottery Commission
and
James R. Scroggins, Executive Director
State Lottery Commission
Jefferson City, MO 65102

The State Auditor is required under Section 313.315(l), RSMo 2000, to audit the accounts and transactions of the State Lottery Commission. The commission had engaged Cochran, Head & Co., P.C., Certified Public Accountants (CPA), to perform annual audits of the State Lottery Commission for the years ended June 30, 2001, 2000, and 1999. To satisfy our statutory obligation and minimize duplication of effort, the State Auditor has used the work of the CPAs. We reviewed the reports and substantiating working papers of the CPAs to satisfy ourselves as to the appropriateness of using their reports, and we accept them in partial fulfillment of our responsibility under Section 313.315(1), RSMo 2000. The additional objectives of this audit were to:

1. Review compliance with certain constitutional provisions, statutes, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
2. Review certain management practices.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we also examined the agency's financial and management records, made inquiries of agency employees, and examined other papers and documents as determined appropriate for the audit.

As part of our audit, we assessed the agency's management controls to the extent we determined necessary to evaluate the specific matters described above and not to provide assurance on those controls. With respect to management controls, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the agency's management and was not subjected to the procedures applied in our audit of the agency.

The accompanying Management Advisory Report presents our findings arising from our audit of the agency.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a larger, more prominent script than the last name "McCaskill".

Claire McCaskill
State Auditor

August 24, 2001 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	John Blattell, CPA
In-Charge Auditor:	Susan Beeler
Audit Staff:	Lori Melton
	Tsetsegsaikhan Chadraabal

MANAGEMENT ADVISORY REPORT-
STATE AUDITOR'S FINDINGS

STATE LOTTERY COMMISSION
MANAGEMENT ADVISORY REPORT –
STATE AUDITOR’S FINDINGS

1.	Sponsorship Agreements
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The State Lottery Commission (SLC) does not have a uniform procedure for managing or accounting for tickets received through sponsorship agreements, and various individuals were responsible for different events. There is also no formal written policy regarding the use or tracking of tickets received.

As a part of its advertising program, the State Lottery Commission (SLC) sponsors various sporting and entertainment events. These events include, but are not limited to, professional baseball and football, college football and basketball, concerts, and various minority and women’s events and projects. According to the contract terms, the SLC receives various forms of advertising during the events as well as other items, such as tickets to the events. During the year ended June 30, 2001, the SLC spent over \$3 million on sponsorships (up from just over \$2 million in 1999). The SLC also purchases ten season tickets each year for the St. Louis Rams football games through a personal seat license (PSL). As discussed in part E, the cost of these PSL tickets for the 2001-2002 season was \$6,500. It is the SLC’s informal policy to give these sponsorship and PSL tickets to SLC retailers as incentives and sales promotions, believing this will encourage the retailers to increase their participation in lottery products. Our review of these tickets noted the following areas of concern:

- A. The SLC does not have a uniform procedure for managing or accounting for these tickets, and various individuals were responsible for different events. There were some events and tickets for which the SLC could not provide us with detailed documentation regarding who attended the event or how the tickets were distributed. Furthermore, there was no tracking of tickets for minority and women’s events. As a result, not all tickets were adequately accounted for or tracked. Specifically, we noted:
 - 1. Various SLC employees are responsible for receiving and accounting for sponsorship tickets. To ensure that all tickets received are properly accounted for, one employee should receive and track all tickets provided by sponsorship agreements. Additionally, since sponsorship events are handled by either the marketing department or minority and women business department, the employee appointed to be responsible for the tickets should be independent of these departments.
 - 2. Tickets for concerts and various miscellaneous promotions were not tracked for the year ended June 30, 1999, and most of the year ended June 30, 2000. SLC employees began tracking these tickets in the year ended June 30, 2001.

3. The SLC did not account for nearly 30 percent of the sports sponsorship tickets received during the three years ended June 30, 2001 (1,895 out of 6,395 tickets). In some cases, the number of tickets tracked for an event exceeded the number that SLC employees indicated had been received.

The disposition of the remaining 70 percent of the sports sponsorship tickets was documented in some fashion; however, the documentation was inadequate. Of the tickets that were given to retailers, the retailer identification was not indicated on 618 out of 4,127 tickets.

- B. There is no formal written policy regarding the use of the tickets received or the methods to track the tickets. The informal policy for minority and women's events and projects is that the tickets are used by employees working the event, or given to retailers or companies who have contracts with the SLC. The informal policy for all other sponsorships is that the tickets are given to SLC retailers. SLC employees are allowed to use the tickets for non-minority and women's sponsorships only if they are entertaining a SLC retailer.

While reviewing the distribution of the tickets, we noted that the informal policy was not strictly adhered to. For sponsorships (other than minority and women's events), there were 208 of 8,887 tickets accounted for that were given to an organization that was not a retailer and 81 of the tickets accounted for were given to a SLC commissioner, the executive director, or a SLC employee. These included 32 Cardinal tickets, 28 Rams tickets, eight Chiefs tickets, four Royals tickets, and nine tickets to miscellaneous events. If these tickets had been purchased on the open market, they would have been worth over \$2,500. Additionally, some of these games were sold out which meant the tickets may have had an intangible value in addition to the stated amount.

- C. The SLC could not always provide documentation, in the form of a retailer's signature, verifying that the retailer received the tickets indicated. The retailer's signature was only retained for 2% of tickets accounted for. Without a signature, a confirmation, or some other communication directly from the retailer verifying receipt of the tickets, the SLC cannot ensure that the retailer received the number or type of tickets indicated.
- D. The SLC does not retain all unused tickets. SLC employees noted that unused tickets for minority and women's events are not retained. Additionally, for all other sponsorships, we noted that 15 of 149 unused tickets could not be located. Without keeping the actual tickets, the SLC cannot verify that the tickets were not used.
- E. In 1995, the SLC purchased 10 personal seat licenses (PSLs) for the St. Louis Rams at a cost of \$45,000. These PSLs guarantee the SLC the ability to purchase season tickets for the St. Louis Rams for the same seats each year until 2025. SLC

employees indicated that these PSLs were purchased so that the SLC would have additional tickets to give to retailers. The costs of these tickets have been as follows:

<u>Season</u>	<u>Cost</u>
1999-2000	\$4,500
2000-2001	5,600
2001-2002	6,500

Playoff tickets are available at an additional cost. Each year, the SLC has opted to buy playoff tickets (if applicable). The cost of playoff tickets for the PSLs was \$1,753 in November 1999.

For each year of the audit period, the SLC could only account for six PSL season tickets. SLC employees indicated that the other four season tickets were given to a commissioner to act as an ambassador for the SLC. The commissioner received these tickets to entertain the retailers in the other six seats. While the use of one of these ticket is allowed by the informal policy of the SLC, there was no documentation retained indicating who used the three additional tickets given to the commissioner.

The number of sporting events sponsored by the SLC has continued to increase, and consequently, the number of tickets received through these sponsorships has increased (from 1,733 tickets in 1999 to 2,371 in 2001). As noted earlier, the cost of these sponsorships has also increased significantly from fiscal year 1999 to 2001. In contrast to the other tickets received, the SLC does not receive any advertising exposure through the purchase of the PSL tickets except when used in player or retailer promotions. The SLC has a fiduciary duty to ensure funds are expended in a manner that maximizes revenues, and therefore maximizes the amount of money transferred for education purposes. The SLC could not provide detailed documentation to indicate how the expenditures listed above resulted in increased revenue to the SLC.

WE RECOMMEND the SLC:

- A. Appoint one employee to track all tickets received through sponsorship agreements. This employee should be independent of the marketing department and the minority and women business department. Documentation should be retained to track the receipt and disposition of all tickets obtained through sponsorship agreements.
- B. Establish a formal written policy regarding the use and tracking of tickets received through sponsorship agreements. This policy should include specific guidelines regarding how these tickets are distributed to provide the opportunity for all eligible entities to receive the tickets and to prohibit the tickets from being distributed in an arbitrary manner.

- C. Obtain the signature or other verification of the retailer or other individual receiving any tickets obtained through sponsorship agreements.
- D. Retain all unused tickets obtained through sponsorship agreements.
- E. Reconsider the purchase of season tickets for the St. Louis Rams. The SLC should ensure costs incurred are necessary and reasonable, and provide a benefit to the SLC that justifies these additional costs.

AUDITEE'S RESPONSE

The Lottery concurs with all recommendations outlined for sponsorship agreements:

- A. *Concur. Revised procedures for tracking tickets from sponsorship agreements were issued September 4, 2001. The secretary to the State Sales Manager was designated as the person to maintain records of ticket usage; we are currently reviewing this further to determine if some other position should be assigned this responsibility.*
- B. *Concur. Procedures issued September 4, 2001.*
- C. *Concur. Required in procedures issued September 4, 2001.*
- D. *Concur. Required in procedures issued September 4, 2001.*
- E. *Concur. Re-evaluation will be conducted. It should be noted that the demographics for Lottery products are virtually identical to those of major sporting events; sports sponsorships help insure that Lottery advertising messages appear in a venue with a receptive audience and thus attain maximum benefit. Sponsorship tickets, including PSL tickets, are used as retailer incentives and as prizes in sales promotions; each of these uses aids the Lottery in maximizing sales and thus net revenues.*

2.	Advertising Expenditures
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The SLC's advertising and promotional expenditures were approximately \$10 million for the years ended June 30, 2001 and 2000; however, a thorough study of advertising expenditures' effects on sales has not been performed.

The Missouri Lottery's advertising budget is comparable to other state lotteries that have the same ticket sales volume as Missouri. Additionally, it appears that advertisements to make the public aware of large jackpots and new promotions may help increase sales. Much of the advertising done by the SLC does not inform the public about a specific product or game, such as large jackpots or new promotions. Instead, the SLC's advertising appears to concentrate on general promotion of the lottery, such as "Luckytown". The SLC could not provide us with evidence that this form of advertising increases sales. While reviewing

other state lotteries, it was noted that the Massachusetts State Lottery has steadily decreased its advertising expenditures over the past eight years, while its sales have continued to increase. Since 1997, while the Missouri Lottery was spending \$10 million on advertising, the Massachusetts Lottery's advertising budget has been limited to \$400,000 which may only be spent on point-of-sale promotions and approximately \$3 million spent on agent incentive drawings. From 1997 through 2000, sales in Missouri increased from \$440 million to \$508 million (an increase of 15.5%) while sales in Massachusetts have increased from \$3.2 billion to \$3.7 billion (an increase of 15.6%). Part of Massachusetts' ability to increase sales while spending much less on advertising than Missouri may be due to the large payout rate in Massachusetts (75% of sales), as compared to Missouri's 55% payout rate. Therefore, it appears that advertising may not be the main determinant of sales.

A prior audit performed by our office recommended that the SLC have an independent review conducted to analyze the effectiveness of advertising. The SLC contracted with the University of Missouri in the fall of 1998 to have an evaluation performed on the impact of advertising expenditures on sales of Lottery products. The evaluation, costing \$10,711, indicated that an increase in advertising appeared to lead to an increase in sales. However, the letter provided to the SLC from the University of Missouri summarizing the evaluation did not include any support for the conclusions reached, nor did it provide the methodologies used to reach the conclusions. The letter indicated that the evaluation was inadequate because the SLC does not maintain data in a manner conducive to analysis. Therefore, no further analysis could be performed.

A follow-up to the evaluation was done by the University of Missouri in the spring of 1999 costing \$1,200. This follow-up listed ways in which the SLC could collect and maintain data so that studies could be performed in the future. The SLC has begun collecting sales and expenditure data from the advertising agency in the manner prescribed by the follow-up done by the university. SLC employees indicated that an evaluation using the new data will be planned during the year ended June 30, 2002. However, it has not been scheduled at this time.

The SLC spends a significant amount of money on advertising expenditures. Additionally, a thorough independent review of the effectiveness of the SLC advertising has not been done. To ensure these monies are used in the most effective manner possible, the SLC should have an independent review to determine to what extent and what type of advertising effects the sales of lottery products.

WE RECOMMEND the SLC have an independent reviewer conduct a study of the effectiveness of various types of advertising on the sales of lottery products with the goal of determining if it is possible to reduce advertising expenditures without significantly reducing sales volume.

AUDITEE'S RESPONSE

The Lottery concurs with the recommendation. Now that the type of review required by the recommendation has been agreed to and sufficient data has been collected, the review will be scheduled through the University of Missouri in the first half of calendar year 2002. This review, as agreed, will address the respective cost/benefits of various types of media for various lottery games and promotions.

As noted in the audit, the Missouri Lottery's current media advertising to sales ratio is comparable to other state lotteries with the comparable sales volume:

	<u>Sales</u>	<u>Adv/Sales</u>
Indiana	\$582 million	1.5%
Kentucky	\$584 million	1.7%
Minnesota	\$397 million	1.9%
Washington	\$453 million	1.5%
Missouri Lottery	\$508 million	1.6%

This advertising to sales ratio for Missouri of 1.6% is significantly less than the normal media advertising to sales ratio for many discretionary spending consumer goods products which typically run in the 2% to 6% range. For example:

Amusement & Recreation Services	4.5%
Bottled & Canned Soft Drinks	5.3%
Cookies & Crackers	3.0%
Distilled & Blended Liquor	15.2%
Ice Cream & Frozen	3.6%
Motion Picture Theaters	2.0%
Tobacco Products	4.8%

In addition, the effective buying power of the Lottery's media budget of \$8.25 million has been reduced to about \$6.0 million since the last budget increase in 1995 due to increased costs of media. Therefore Missouri's effective media advertising ratio is approximately 1.2 %.

Furthermore, we believe that the Massachusetts Lottery is an anomaly in the U.S. lottery industry for several reasons:

1.	<i>Fiscal Year 2000 Prize Pay-Outs:</i>	
	Massachusetts	70% (highest for 38 U.S. lotteries)
	Missouri	55%
	Range	49% to 70% (for 38 U.S. lotteries)
	U.S. lottery industry average	55.2%

A prize pay-out in Missouri comparable to Massachusetts would equate to an additional \$76 million in prizes at current Missouri sales levels.

2. *Massachusetts' total sales for fiscal year 2000 were approximately \$3.7 billion. Missouri sales for fiscal year 2000 were \$508 million. Only two U. S. lotteries (Massachusetts and New York) had sales in excess of \$3 billion annually in fiscal year 2000. New York's annual sales for fiscal year 2000 were approximately \$3.6 billion and their advertising budget was in excess of \$66 million (an advertising to sales ratio of 1.8%). The U.S. lottery industry average is \$11.4 million for annual advertising media.*
3. *Massachusetts' sales are approximately 67% scratchers and 33% on-line including keno. Missouri sales are approximately 54% scratchers and 41% on-line. As noted in the audit "advertisements to make the public aware of large jackpots and new promotions may help increase sales." Missouri achieves a significantly greater percentage of annual sales from on-line games and the related benefits from jackpot advertising than Massachusetts.*
4. *Because of the tremendous scratcher sales volume in Massachusetts (\$2.5 billion in FY-2000) and their prize pay-out percentage (70%), Massachusetts is able to offer some individual scratcher games with jackpot-size top prizes (fifteen \$4 million prizes and thirty \$1 million prizes). Consequently, Massachusetts' advertising needs are cast in a totally different and less significant light. Missouri can not at current sales levels do games with this level of prize pay-out and thus must utilize advertising and sales promotions to a greater extent in order to achieve sales/revenue goals.*

In conclusion, we believe Massachusetts is an anomaly in the U.S. Lottery industry and that Missouri's performance is more comparable to the other 36 of 38 U.S. lotteries.

Otherwise we do concur with the audit recommendation to complete the independent review of lottery advertising.

3.	Prize Check Procedures
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Adequate controls are not in place or not always enforced for prize check distribution in the regional offices. There is not always an independent verification of the accuracy of the checks. There were numerous entries on the check register of illegible winner's signatures, only initials were written, or nothing was indicated at all. Some checks listed as voided were not retained and an explanation of the reason for voiding some checks was not given. Additionally, some retained void checks were not properly marked void.

When a claimant brings a winning ticket to a regional office to claim a prize, the regional office may issue a check to the winner for an amount up to \$25,000, net of taxes. A SLC employee enters the claimant and ticket information into the check writing system. As the check is printed, a signature cartridge inserted in the computer automatically prints the required signatures on the check. A SLC employee initials near the signature line indicating that this employee has reviewed the accuracy of the check. In addition, another employee

must also verify the amount of the prize checks and initial near the signature line. The prize winner is required to sign a check register acknowledging receipt of the check.

- A. During our review of claims processing, we noted 19 out of 96 prize checks written in the regional offices (20 percent) had only one set of SLC employee initials near the signature line.

Since the checks are immediately distributed to the prize winners, a second employee should verify the amount of the prize checks before the checks are distributed. This verification process should also be documented by initialing on the signature line. Without this verification, internal control policies over the distribution of checks are weakened because there is no independent verification of the accuracy of the checks.

- B. A ticket claimant is an individual who completes the back of a winning ticket or a claim form for a winning ticket. The SLC will distribute prize checks to someone other than the claimant if that person is in possession of the winning ticket; however, the check must still be made payable to the claimant. The individual is supposed to sign his or her name on the check register indicating receipt. There were numerous entries on the check register in which the prize winner's signature was illegible, only initials were written, or nothing was indicated. For these checks, we could not verify the name of the individual receiving the check or if the check was mailed to the claimant; therefore, we were unable to determine that the checks were properly distributed. To alleviate this problem, the individual receiving the prize check should sign and print his or her name on the check log to indicate receipt of the check. If the check is mailed or otherwise distributed, this should also be documented.
- C. We scanned two months of the check register for all of the regional offices for any checks that had been marked as void. There were a total of 29 checks that had been indicated as void on the check registers. An explanation for why these checks were voided was not given for any of the 29 checks. Without an explanation the reasonableness of the voided checks can not be determined.
- D. During our review of voided checks, we noted that 10 out of 29 voided checks were not retained or not properly marked void. Without retaining the actual, mutilated check, the SLC cannot ensure that the check was voided and will not be cashed.

WE RECOMMEND the SLC:

- A. Ensure all checks processed in the regional offices are reviewed for accuracy by two employees. In addition, the SLC should ensure this review is documented by initialing on the signature line of each check.
- B. Ensure the name of the individual receiving the prize check is documented in a legible manner, if it is someone other than the claimant. If the check is mailed or otherwise distributed, this should also be documented.

- C. Ensure a reason is indicated on the check register for all checks that are voided by the regional offices.
- D. Ensure voided checks are properly mutilated and retained.

AUDITEE'S RESPONSE

The Lottery concurs with all the recommendations outlined for prize check procedures.

The Lottery has long-standing procedures in place to address all these issues. The audit findings result from failure of some field office personnel to follow these established procedures in all instances.

Appropriate disciplinary action has and will be taken, as necessary, to ensure compliance. Headquarters staff will conduct periodic internal audits to determine compliance.

It should be noted that the incidents cited did not result in any financial loss to the state.

This report is intended for the information of the agency's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

STATE LOTTERY COMMISSION HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The State Lottery Commission was created June 11, 1985, by Senate Bill No. 44, First Regular Session, 83rd General Assembly. That action followed voter approval of a lottery amendment to the Missouri Constitution at the November 1984 general election. The State Lottery Commission began selling instant game tickets on January 20, 1986.

Section 313.321, RSMo 2000, provides that money received from the sale of lottery tickets shall be divided as follows: A minimum of 45 percent shall be awarded as prizes; administration, advertising, promotion, and retailer compensation costs shall be paid as appropriated by the General Assembly; and the remainder shall be transferred to the Lottery Proceeds Fund to be appropriated solely for institutions of elementary, secondary, and higher education.

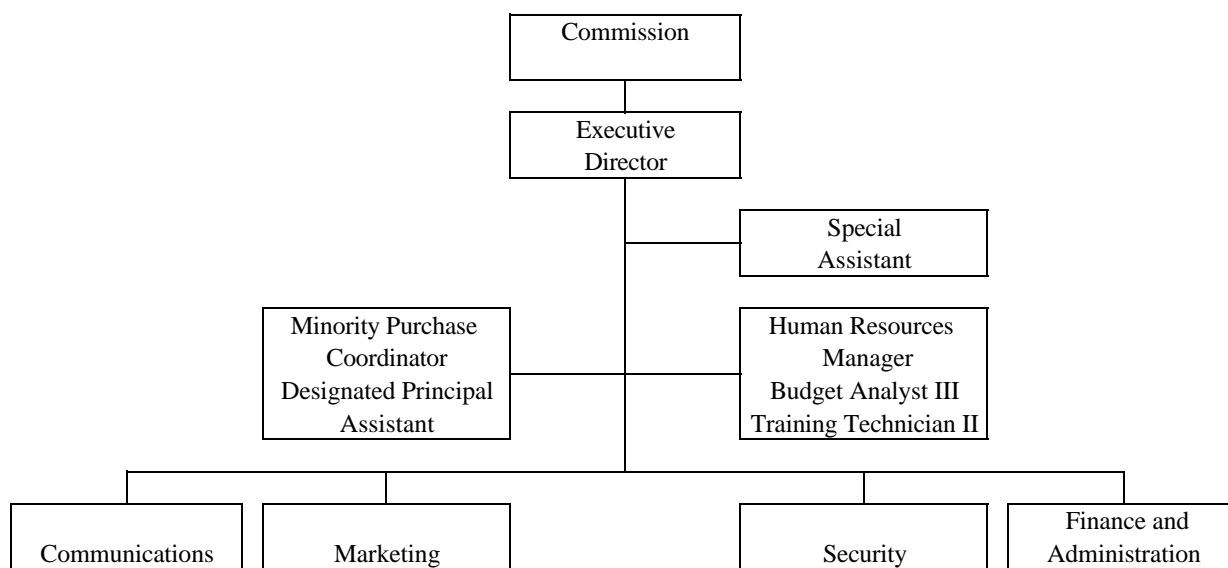
A five-member lottery commission is appointed by the governor with the advice and consent of the Senate. The commission must meet at least quarterly. The commission has the authority to promulgate rules as it deems necessary and desirable to fully implement the lottery as mandated by the people in Article III of the Missouri Constitution. It appoints a director to act as secretary of the commission and keep all books and records of the commission. The director of the lottery oversees the commission's operation and administration. At June 30, 2001, James R. Scroggins served as the Executive Director. At June 30, 2001, the members of the commission were as follows:

<u>Commissioner</u>	<u>Term Expires</u>
William E. James, Chairman	September 7, 2001*
Kenneth R. Hensley	September 9, 1998*
Robert J. Mayfield	September 7, 2000*
Barbara H. Pickering	September 7, 2002
Sue Carrol Terry	September 7, 2002

* Commissioners continue to serve until a replacement is named.

The State Lottery Commission staff is organized into four divisions. Each division is headed by a director who coordinates activities to meet the commission's objectives. At June 30, 2001, the State Lottery Commission employed approximately 175 individuals. An organization chart follows.

STATE LOTTERY COMMISSION
ORGANIZATION CHART
JUNE 30, 2001

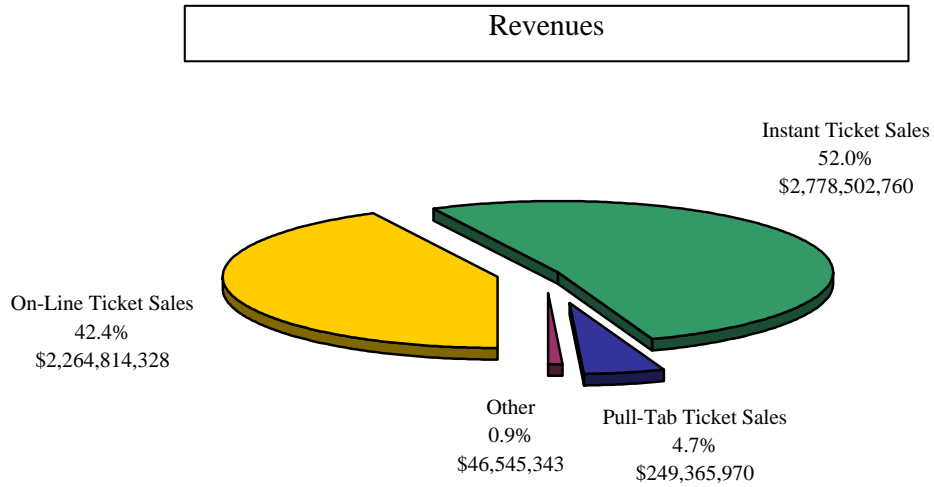


Appendix A

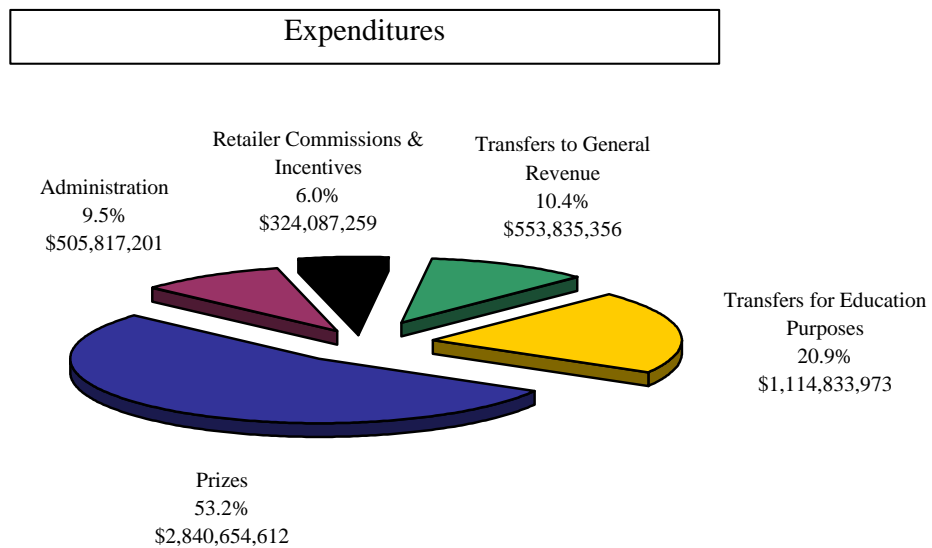
STATE LOTTERY COMMISSION
REVENUE AND EXPENDITURE DATA
THREE YEARS ENDED JUNE 30, 2001

	Year Ended June 30,		
	2001	2000	1999
Revenues			
Instant ticket sales	\$ 272,658,386	266,708,105	248,510,434
On-line sales	209,064,079	212,437,187	235,500,040
Pull-tab sales	26,578,639	28,700,294	29,240,982
Other	15,297,172	1,767,426	3,115,918
Total	<u>\$ 523,598,276</u>	<u>509,613,012</u>	<u>516,367,374</u>
Expenditures			
Transfers for Education	\$ 153,914,731	154,018,327	158,562,488
Prizes	293,218,540	280,506,198	282,306,452
Administration	44,035,234	42,699,958	43,220,049
Retailer Commissions and Incentives	32,429,771	32,388,529	32,278,385
Total	<u>\$ 523,598,276</u>	<u>509,613,012</u>	<u>516,367,374</u>

STATE LOTTERY COMMISSION
REVENUE AND EXPENDITURE CHARTS
JANUARY 20, 1986 THROUGH JUNE 30, 2001

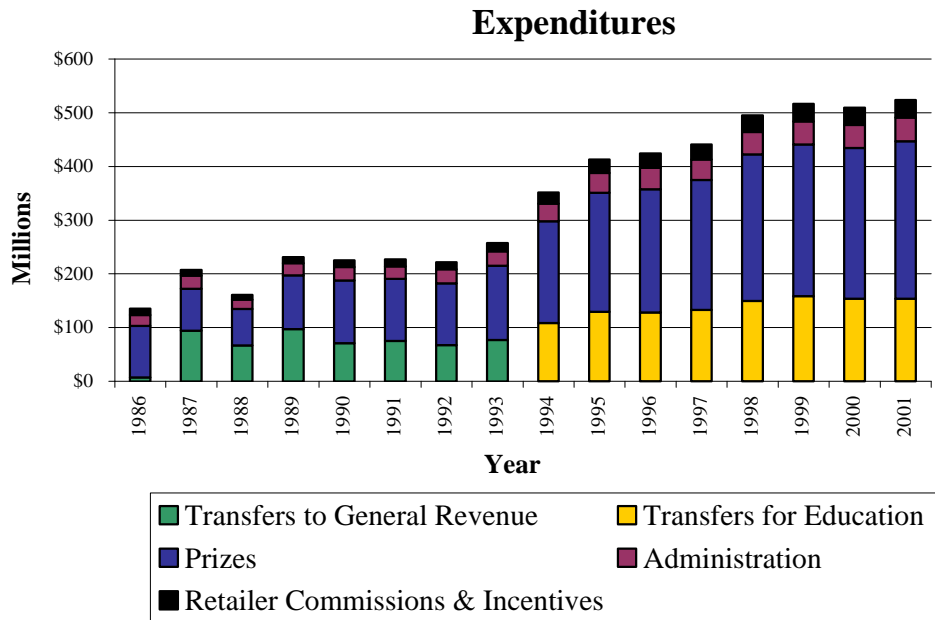
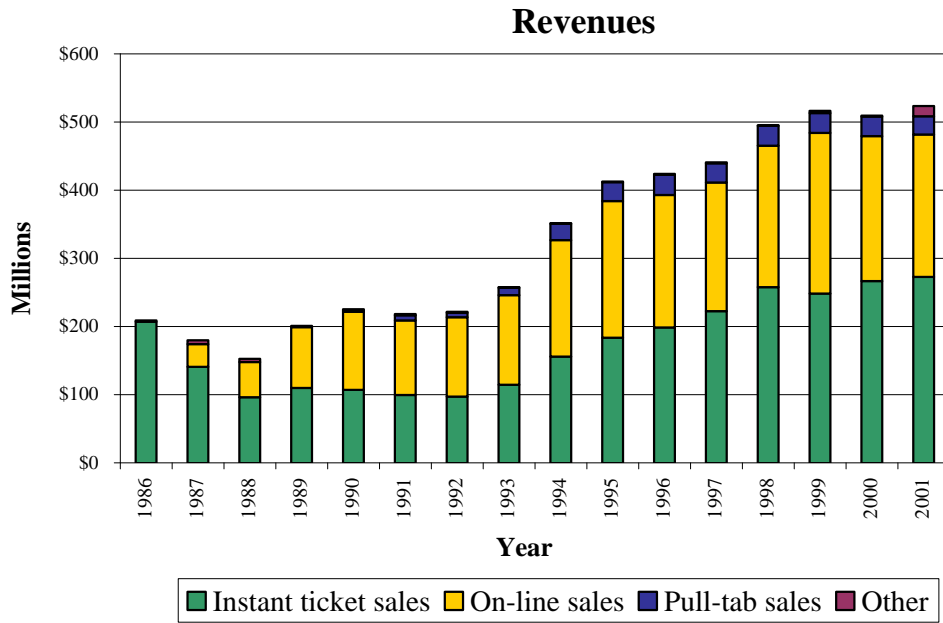


Total Revenues: \$5,339,228,401



Total Expenditures: \$5,339,228,401

STATE LOTTERY COMMISSION
REVENUE AND EXPENDITURE GRAPHS
JANUARY 20, 1986 THROUGH JUNE 30, 2001



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